
Minutes

Board of Natural Resources

October 5, 2004
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Gary Locke

Terry Bergeson, Superintendent of Public Instruction

R. James Cook, Interim Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

BOARD MEMBERS ABSENT

Glen Huntingford, Commissioner, Jefferson County

Bruce Bare, Dean, University of Washington, College of Forest Resources

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:10 a.m. on, October 5, 2004, in Room 172 of the Natural Resources Building. Chair Sutherland announced that the Board would be convening for an Executive Session.

EXECUTIVE SESSION

Meeting reconvened at 9:50 AM.

APPROVAL OF MINUTES

MOTION: Terry Bergeson moved to approve the September 7, 2004, Board of Natural Resources Minutes.

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

LAND TRANSACTIONS

Electric City Land Sale #02-074985 (Handout 1)

Ms. VanBuren began by giving a brief description of the six platted residential lots located in Electric City in Northern Grant County. She explained that it was a direct transfer proposal of Common School Trust land to the town of Electric City.

- Portion of Section 16 that was acquired at Statehood.
- Recorded plat in 1948
- 5 lots vacant; one lot leased to city for well site
- Appraised by 3rd party appraiser
- \$49,000 for all six lots

- Recommend approval - Direct Sale to Town of Electric City

MOTION: Terry Bergeson moved to approve Resolution #1139.

SECOND: Bob Nichols seconded.

ACTION: Motion passed unanimously.

Pinto Ridge Trespass # T3-075655 (Handout 2)

Ms. VanBuren began by giving a brief description of the property located in Grant County. She explained that the Stamps purchased their property 20 years ago and built a home and several outbuildings without getting a survey and relied instead on an existing fence line as well as the seller's representation of the property line; consequently the fence line was incorrect and all improvements were made on state land not the Stamp's land.

- Common School Trust
- Approximately 1 mile south of Coulee City
- Zone: Agriculture (one dwelling per 40 acres)
- Stamps built improvements 20 years ago
- Property survey 2001 - All improvements were made on state land

Resolution:

- Sell 2.5 acres to the Stamp's
- \$8,000 (appraised value)
- All costs paid by Stamp's

MOTION: Terry Bergeson moved to approve Resolution #1140.

SECOND: Jim Cook seconded.

DISCUSSION: Ms. Bergeson wanted to send a letter from the Board to the Stamp's to acknowledge their honesty in coming forward with the trespass information.

Chair Sutherland said that would be done.

ACTION: Motion passed unanimously.

TIMBER SALES

Proposed Timber Sales for November 2004 (Handout 3)

Jon Tweedale gave a brief overview of his presentation starting with a market update:

Market Update

- DNR Stumpage at a five year high
- Housing starts stable and interest rates low
- Inventory level of logs at mills is in balance with supply and demand - on average with regional differences.

September 2004 Sales Results: 5 sales offered & 5 sold; 14.0 mmbf offered & 14.0 mmbf sold; \$3.3 million minimum bid & \$4.9 million sold; \$235/mbf offered & \$352/mbf sold; average number of bidders 5; 50% above minimum bid.

He stated that the market is moving but his assessment is that lumber prices are reaching a plateau. However, he didn't feel that it would impact stumpage prices at this point.

Proposed November 2004 Board Sales: 7 sales at 24.1 mmbf; \$8.4 million; average \$349/mbf.

Recommend all 7 sales at 24,113 mbf with a minimum bid of \$8,410,000 be approved for auction for the month of November 2004.

MOTION: Terry Bergeson moved to approve November 2004 timber sales.

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

Mr. Tweedale continued his presentation with the Contract Harvest program:

Contract Harvest / Forest Health Wehl Ridge Southeast Region

- Designed to minimize environmental cumulative effects
- Forest Health concerns quite high with extremely dense stands
- Forest fire potential extremely high

He talked about beetle infestation and the impact it has on the quality of wood. He referenced photos that show thinned stands and explained that fire would not be able to crown out because of the thinning performed in that area.

Performance Update FY04

- Sales mix changes/diversified sale methods
- Software improvements to allow better timber sales tracking and cost analysis
- Broader differentiation of products and customers
- Increased bidder numbers and many new customers

He stated that interest in DNR timber is strong and the Department has a good reputation for offering a premium product as well as having an excellent program to back it up. He referenced a photo showing logs harvested in a thinning and explained that the logs were taken to Canyon Lumber, a small mill in Everett. He commented that this particular mill recovers higher value products concentrating more on value-added products versus productivity; value-added meaning beams. He said the ring count is a much tighter and stronger board making it marketable for specialty products such as doors, windows, and other high value products; the timber he referenced came out of Northwest Region Forests. He noted that one key to marketing is the ability to mix a higher quality board with a board that is cut from a faster growing tree; by mixing those you can still gain a premium in price.

Mr. Tweedale referenced a photo showing poles from second growth Cedar out of Northwest Region. He stated that the poles sell anywhere from \$800 to over a \$1,000 dollars per thousand board foot. He referenced a graph showing productivity and explained that DNR is trending up in productivity per employee in spite of reductions through fiscal year 04'. He said the graph shows sales volume and number of employees. He stated that in fiscal year 01' product sales program costs were at about \$14.5 to \$15 million dollars; DNR has been on a trend in reducing those costs through fiscal year 04'. There was a 41% reduction in cost through fiscal year 03'. He explained that about \$15 million per year is spent on the product sales and leasing program and that the unit cost has been reduced from \$32 dollars a thousand to \$19 dollars per thousand board foot.

He then referenced a graph showing cost reduction from FY01 stating that 550 million board feet were sold for FY04. As volume increased, the costs stabilized even with the projection of increased staff; unit costs are not going up with increased volume. From FY01 to FY05 the graph showed an increase of \$110 million board feet.

He talked about the relationship between volume DNR has sold and the average price achieved per thousand board foot. He said there was a 16% drop in the market from FY00 to FY02; from FY02 to FY05 there is a 23% increase in value both caused by markets, product improvements, and increased number of bidders. He wanted to note that there was a \$70 per board foot increase from FY02 to FY05.

Ms. Bergeson asked whether volume has gone up because of our market niche as well as better prices?

Mr. Tweedale said yes.

Mr. Cook asked if the combination of improved efficiency and increased market would keep the operating cost below 25%?

Mr. Tweedale said the reserves would still be used.

Mr. Tweedale talked about removal values and referenced a graph that showed sold volume with total gross revenues. He stated that there had been a steady increase of volume & value from FY01 through FY03 but that removal revenue was lagging.

Ms. Bergeson clarified that removal values are essentially "cash in".

Mr. Tweedale said that was correct and that he was trying to show the relationship between the lag in sales versus cash in.

He stated that gross timber sales value has gone up from \$130 million to a projected \$189 million in FY05; of this 37% increase, 10% can be attributed to optimization of resources statewide.

Summary

- Last four years set a trend of decreased cost and increased productivity, while increasing habitat treatments
- Broader use of contract harvesting with improved value and environmental controls
- Target marketing to value-added producers

Ms. Bergeson commented that DNR is doing a very good job of maximizing the productivity of the organization in terms of fiduciary responsibilities and environmental issues. However it didn't show her why the Department would need another nickel on the 25% management fee. She stated that in spite of the gains, DNR is overextended in being able to deliver on the ecological commitments made on the sustainable harvest calculation. She wanted to know if that was a fair statement.

Mr. Tweedale said it was.

Ms. Bergeson said that the viability of the organization has convinced her to consider the increase in terms of long term planning in building habitat for the trusts. She felt that a silvicultural investment needs to start as soon as possible or else the Board is making empty promises.

Mr. Tweedale responded that there has been consistent improvement under Commissioner Sutherland's guidance yet the Department still needs to fix the bigger issue.

Chair Sutherland commented that the information presented was significant because it shows the kind of thinking that the Department is doing in looking at the market place, the process, and making changes where necessary to create more efficiency. He commented that there is going to be a period of time soon where it will be difficult for the Department to operate utilizing the same revenue streams experienced over the last 30 years; inputs and communication with the legislature are critical.

Chair Sutherland shared with the Board that DNR is bringing in an Independent Review Committee made up of five people to look at how the Department is doing business and if they are headed in the right direction.

Ms. Bergeson stated that it's important to make clear to the legislature the impact of this landscape plan on the trusts. She reiterated the importance of making a decision on this plan quickly. However, she also expressed a desire to wait until the two absent Board Members were present to act, given their interest in this issue. Ms. Bergeson also raised the concern that this had not been advertised on the meeting agenda as an action item, so members of the public who might want to comment might not be present.

CHAIR REPORTS

Chair Sutherland explained that he would be recognizing a group of DNR employees that have worked on the Sustainable Forestry Management Plan. He talked about all the aspects of the SHC process and how many people were involved in the coming together of the final adoption of the resolution and preferred alternative. He noted that there were 38 people in the Department working on various pieces of the SHC (writing, reviewing, and development) and additionally there were others supporting those 38 people including contractors, office support staff, and various staff members in general. Chair Sutherland asked Angus Brodie and his core team to come forward for recognition, the following staff members were recognized for their outstanding work and efforts on bringing the SHC to the Board for final approval: Angus Brodie, Brian Lu, Scott Sagor, Heather Cole, Joanne Wearley, Andy Hayes, Weiko Jaross, and Eric Aubert. Chair Sutherland said he was very proud of the work done by this group and the enormous amount of hours put into the process. On behalf of the Board he thanked them for their exceptional dedication and work on the SHC. He noted that there was a poster made for this event that the Board members and all people involved in the SHC would sign and then copies would be made.

Lake Whatcom (Handout 4)

Mr. Wallace, Northwest Region Manager presented. Mr. Wallace began by giving a brief overview of the presentation. He referred back to the April meeting and the questions that had been raised at that meeting including a discussion about the interjurisdictional committee (IJC).

Summary of April 2004 BNR Meeting

- Staff presented summary results of EIS and preferred alternative
 - No action alternative (Habitat Conservation Plan, Forest Resource Plan)
 - Does not meet requirements of E2SSB 6731
 - SEPA requires a no action alternative
 - Preferred alternative (DNR recommended adoption)
 - Focuses on generating revenue for trusts, meeting minimum requirements of legislation and seeks support of the community.
- Board members postponed voting on the preferred alternative, pending further information.

Elements of Legislation

“Lake Whatcom landscape management pilot project” (E2SSB 6731)

- Riparian zones for all streams
- Carefully regulate harvest and road construction on potentially unstable slopes
- Prohibit road construction on unstable slopes
- Develop sustained yield model
- Develop road management plan
- Establish an interjurisdictional committee
- No timber harvest until plan is complete
- Complete plan by June 2001

Portion of Landscape in Special Protection

	No Action Alternative	Preferred Alternative
Acres in Special protection	4,317	7,431
% Of Landscape	27%	47%

Revenue Comparison (in millions)

	No Action Alternative	Preferred Alternative	% Of No Action Alternative
Revenue (first two decades)	\$35.7	\$31.4	88%
Total Revenue (200 year modeling period)	\$337.4	\$177.2	53%

Lake Whatcom Landscape Plan Costs

- Approximately \$800,000 to prepare EIS and landscape plan
- Estimate \$2 million to prepare and implement a road maintenance and abandonment plan
- Future costs to work with committee and community to implement plan: unknown

Review of April 2004 BNR Meeting

- Board Members comments:
- Questions about additional costs to implement preferred alternative
- Concern over IJC
- Desire to find outcome that works for both trusts and community
- Resume discussion after sustainable harvest decision

Implementation of Costs: Review of April Board Meeting

Board questions/comments on costs:

- What is the cost benefit ratio?
- At what point would it be considered non-profitable?
- Where would the increased management costs come from?
- Is it fair and equitable to beneficiaries?
- Concern over financial impact to other counties

Implementation Costs: November Board Meeting

- At the November Board meeting, DNR staff will provide analysis of net revenue (gross revenue minus management costs)
- Analysis will consider increased:
 - Management costs to work with committee and community

- Operational costs to harvest and manage forest

Interjurisdictional Committee

E2SSB 6731 contains the following language:

“The Department shall establish an interjurisdictional committee for the development of the landscape plan, to review site specific activities, and to make recommendations. The interjurisdictional committee shall include two members of the public who have an interest in these activities...The interjurisdictional committee may recommend to the department restrictions upon timber harvest and yarding activities on a case-by-case basis”

- Draft resolution presented in April outlined proposed makeup of a 5 person committee appointed by Commissioner
- 3 technical experts nominated by Whatcom County, City of Bellingham, Water District 10
- 2 members of general public nominated by NW Region Manager
- Committee shall serve at no expense to trust
- Officials from Whatcom County are currently not in support of how the draft resolution describes the formation of the IJC.
- Commissioner Sutherland has been working to come to agreement.

Plan for November Meeting

DNR staff will present:

- Net Revenue analysis
- Draft resolution for Board action

Ms. Bergeson expressed her desire to resolve the Lake Whatcom Landscape Plan issue as soon as possible. She hoped that this could be acted on at the November 2nd meeting.

Mr. Cook wondered if all questions raised in April would be answered by November 2nd.

Mr. Wallace said there would be an analysis as a whole on the questions raised specifically related to trust revenue and management funds. He added that it's built in the resolution that DNR report to the Board annually on implementation costs.

Ms. Bergeson stated that it's important to make clear to the legislature the impact of this landscape plan on the trusts. She reiterated the importance of making a decision on this plan quickly. However, she also expressed a desire to wait until the two absent Board members were present to act, given their interest in this issue. Ms. Bergeson also raised a concern that this had not been advertised on the meeting agenda as an action item, so members of the public who might want to comment might not be present.

Mr. Nichols agreed with those concerns.

Chair Sutherland said the Lake Whatcom Landscape Plan would be on the November 2 agenda as an action item.

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

James Sereyka - Public Citizen

Mr. Sereyka stated that he lives next door to a gravel pit and wanted to point out that there is no policing by the county. (During the course of testimony it was realized that Mr. Sereyka was addressing the wrong

agency in his concerns over the gravel pit. He was given the correct information on where to voice his concerns.)

John Gorman - Sustainable Forestry Initiative Implementation Committee for Washington State

Mr. Gorman congratulated the Department on the completion of a 3rd party certification audit. He recognized that it's an extensive process including the documentation and the field audit. He commended DNR for what they've done and said that it's a great validation for the stewardship practices of the Department and he wished DNR well in the final completion of the process.

Chair Sutherland asked if there was anyone else present wishing to make comment before the Board? Seeing none, hearing none.

Meeting adjourned at 11:29 a.m.

Approved this ____ day of _____, 2004

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Gary Locke

Bruce Bare, Dean, University of Washington

R. James Cook, Dean, Washington State University (Interim)

Terry Bergeson, Superintendent of Public Instruction

Glen Huntingford, Commissioner, Jefferson County

Attest:

Sasha Lange, Board Coordinator